

A Work Project, presented as part of the requirements for the Award of a Masters Degree in  
Management from NOVA – School of Business and Economics.



# **INTERNATIONAL MARKET SELECTION OF CARREFOUR**

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A Project carried out on the International Business course,

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June, 2015

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### **Abstract:**

*Carrefour has been internationalizing into many countries and would like to continue growing. This study focuses on the potential future international market selection of Carrefour, comparing countries from the EU and South America, in a quantitative and qualitative analysis. The purpose of the project is to help Carrefour to find the right market and the right mode to entry. Through semi-structured interviews and a literature research we found out that Sweden has the highest potential to entry with a Venture (Marketing), followed by Austria.*

**Keywords:** *Market selection, retail, Entry mode*

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## **1.) Introduction**

Engaging business in foreign countries has become crucial for the long-term success of firms (Cavusgil 2004). In this respect, international market selection is a critical aspect in international business (Brewer, 2001; Anderson, 2002; Gaston-Breton, 2011).

The aim of this project is to help Carrefour to identify and select new international markets. To this end, we will first perform a general market analysis of various potential target countries with the objective of identifying the two most promising markets. Then we will perform a more in-depth market analysis of these two markets with the objective of selecting the best target market. Finally, we will identify the most suitable.

Carrefour, the unit of analysis in this project, is the largest retailer in Europe and the second largest retailer in the world, after Wal-Mart. “The group operates hypermarkets, supermarkets, convenience, cash & carry and hypercash stores, as well as food and non-food e-commerce websites.” (Carrefour, 2013). In 2013 Carrefour generated 47% of its sales in its home country France and the rest in Europe, South America and Asia. The main entry modes were mergers and acquisitions, franchising and Joint Ventures to develop business activities (Carrefour, 2013).

The structure of the rest of the report is first the Literature Review by discussing journal articles on “International Market Selection”. Followed by the justification of the methodology and demonstrations of the findings divided into four phases and completed with conclusion and recommendations to Carrefour and implications for future academic work.

## **2.) Literature Review**

Papadopoulos (1987) identified four key reasons for a company’s foreign expansion: competition, market (international trade blocks), costs by intense competition or low potential and experience with synergy effects. When expanding, one of the first choices

firms have to decide on, is the target country to enter (Papadopoulos, 1988). There are theories which try to explain the internationalization like: monopolistic advantage theory, product cycle theory, stage model theory of internationalization, oligopolistic reaction theory, internationalization theory, eclectic theory of international production, strategic choice theory, network theory of internationalization and transaction cost theory (McDougall et al., 1994; Zacharakis, 1997; O'Farrell et al., 1998b; O'Farrell and Wood, 1998; Ibeh, 1999; Chetty, 2000; Westhead, 2002). Many theories fail to predict the internationalization reasons and the international market selection of firms because reality is often more complex than the theory (Sakarya, Eckman, & Hyllegard, 2007).

In literature identifying the main selection criteria is the most fundamental important step in the IMS process because this can be a determinants of a successful or unsuccessful market entry (Papadopoulos, 1987). "The criteria used in market selection vary across methods and may include indicators of wealth, size, growth, competition, access, culture and experience." (Papadopoulos, 1988: 42). "International experience leads to greater international commitment, the latter helps to carry the firm to a higher level of internationalization, and this in turn builds more international experience and leads to subsequent cycle of development, with all three playing the hypothesized role in this process." (Papadopoulos, 2010: 401). These three journal articles of Papadopoulos show that according to him, the criteria didn't change over time.

Reasons for selecting a specific country can be related with proximities, to which the company is close or near in a certain sense: Institutional proximity is defined as an institutional framework at a macro-level, which implies having the same or similar laws, currency and tariffs (Boschma, 2004; Bathelt, Malmberg & Maskell, 2009). Geographic proximity refers to smaller physical distance, which leads to better contacts and external

economies (Boschma, 2004; Adams, 2002; Almeida & Kogut, 1997). Another question is how to enter in the country, which will be discussed in more detail in the next paragraph.

Cavusgil (2014) mentions the following entry modes: Exporting, Countertrade, Foreign Direct Investment (FDI), International collaborative Ventures, Licensing, Franchising and other contractual strategies, such as Turnkey Contracting, Build-Operate-Transfer Arrangements (BOT), Management Contracts and Leasing. According to Rugman (2009) exporting refers to producing goods and/or services in one country and sending them then to another country. This entry mode involves little risk, therefore it is often used in the early stages of a company's internationalization or for risky markets. To establish footholds in foreign markets Rugman (2009) suggests FDI, which is equity funds invested in other nations. This entry mode involves more risk, because the investments might be irreversible and involve more money. An international collaborative venture is an alliance whereby partnering firms share their resources, costs and risks, this is also called "international partnership" or "international strategic alliance". By licensing the owner of intellectual property allows a firm the right to use that property. Franchising allows a firm the right to use an entire business system of another firm. (Cavusgil, 2014). According to Parola (2013) and Huang (2007) the determinants of choosing the right entry mode for a specific country are: firm specific variables (firm size, firm market experience, firm business model), external variables (host country development, market openness, host country government effectiveness, market concentration degree), cross-cultural variables (cultural proximity, language similarities) and project related variables (project size and number of partners involved). This contradicts with Swoboda's (2014) statistical analysis of hypotheses which has the outcome that firms tend to have an entry mode habituation.

To conclude, companies have a variety of criteria (Melin, 1992) disposable to select the right market and entry mode, but experience (Papadopoulos, 1988) is very important and supportive to take the right decisions.

### **3.) Methodology**

The two main methodologies are primary and secondary data collection, whereas the first refers to the original analysis of data and the second is the re-analysis of existing data. Saunders (2007) even talks about a third methodology the “tertiary literature”, which is also called “search tools”, which “are designed either to help to locate primary and secondary literature or to introduce a topic.” There are three main types of interviews: structured interviews, unstructured or in-depth interviews and in between those two extremes the semi-structured interviews. Semi-structured interviews contain questions and a list of themes to be covered, but questions may be disregarded or added according to requirement and the object of the research (Saunders, 2007).

In this work project, to achieve a high quality, primary and secondary data collection has been explored. At the same time as secondary data has been researched, semi-structured interviews have been conducted with employees of Carrefour. This enabled us a broad view of data, criteria and results. Secondary data were collected from a variety of sources such as academic journals, online data bases, websites, books, company reports etc. The semi-structured interviews are more appropriate than the other interviews since it provides a better insight, understanding and adoptability. The selection criteria for the interviewees was simple, we considered current Carrefour employees, who had some knowledge about IMS, most of them were contacts available through the EMLYON network. 32 employees have been contacted, of which only three were available and able to give an interview. The three semi-structured interviews with current Carrefour employees

have been conducted over Skype. On February 22, 2015 a semi-structure interview has been recorded with Mr. Jacob Garcia (Treasury Front Officer) with a duration of about 13 minutes, the other two interviews were anonymous. To examine all the collected information, it was introduced in the GMMSO Software, which applies a data analysis mix between qualitative and quantitative data. This information has been ranked and discussed with recommendations and conclusions for the four phases of this software.

## 4.) Findings

### 4.1 Phase 1: Company Situation Analysis

Carrefour is operating in the discount and variety store industry and is the largest retailer in Europe and the second largest retailer in the world, after Wal-Mart, INC (USA), other competitors are Groupe Auchan (France) and Tesco PLC (UK).

#### Carrefour's Sales and Profit for the last 3 years (Carrefour 2013)

Year	Sales (million €)	Profit (million €)
2014	74,706	1,367
2013	74,888	1,364
2012	76,789	1,316

Carrefour Group concentrates its activities in selling consumer goods. Moreover, it presents a geographical structure, divided by different areas. Currently France with 5,013 stores, Europe with 4,362 stores, Asia with 394 stores, Latin America with 830 stores and other countries (Maghreb, Middle East and Dom. Rep.) with 261 stores. The company has a very developed expertise in opening new stores and partnership with other companies.

Hereafter the focus is on the internationalization and market selection of the Carrefour Group. The headquarters is in France and this is also the place where all the major strategic decisions are taken and they would like to expand further into countries where they see market growth and don't face too much competition. The business level strategy adopted by the company is a coordination of all individual unit activities.

Wal-Mart, Carrefour, Group Auchan and Tesco are currently in all methods international involved: Indirect Exporting, Direct Exporting, Overseas sales subsidiary, Overseas marketing subsidiary, Joint Venture (Manufacturing), Joint Venture (Marketing, Wholly-owned Manufacturing Subsidiary, Contract Manufacturing, Management Contract, Licensing, Franchising, Company owned retail store, E-Commerce, Importing, Off-shore call centers and Foreign retailer acquisitions. All four retailers have already more than five years of international experience in international divisions and within sales/marketing teams. Carrefour entered, exited and reentered several countries and existed again in Europe, Asia, America and Africa.

#### 4.1.1 Retail Industry Analysis

##### Porter's Five Forces framework

<p><b><i>Threat of new entrants</i></b> --</p> <p>The biggest barrier to possible entrants is the well-established position of the industry's major players. Firms like Wal-Mart, INC., Groupe Auchan and Tesco PLC, Carrefour's biggest competitors have a high brand and customer loyalty and have considerable resources to invest in advertising and promotions to protect and grow their market share. Technology and capital constraints within the retail industry however, are not as prohibitive. Access to equipment, construction of new buildings and technology is relatively easy, depending on the country. Overall the threat of new entrants is medium, with the investment in building pushing it higher and the position reinforcement of the actual competitors pushing it down.</p>	<p><b><i>Determinants of competitive rivalry</i></b> --</p> <p>Rivalry among competing retailers shows a big deal of competitive pressure created by the quarrel of rival sellers for a leading market position. This is done through intensive promotion and price wars. Demand is driven by population growth, consumer needs and the number of people in a household. The profitability of individual companies depends on efficient operations, effective marketing, and loyal customers. Large chains have advantages in purchasing, distributing and marketing. There are no high exit barriers given, the buildings can be sold or rented. The competitive rivalry is very high and Carrefour is struggling to become the number 1 worldwide.</p>
<p><b><i>Determinants of supplier power</i></b> +</p> <p>The main Carrefour suppliers are grouped in food suppliers, non-food suppliers, clothing suppliers, perishable and non-perishable food suppliers and electronic good suppliers. The producers in this industry have a low bargaining power and big chains can determine the price as there is a high no. of possible suppliers.</p>	<p><b><i>Determinants of buyer power</i></b> +</p> <p>Typical customers involve private people, small restaurants and food service distributors. There is no big dependency on large customers. So buying power is low. Carrefour maximizes its profit by tightly managing shelf space and tries to drive the price down. The buyer's power is low and the trend is that it will remain like that.</p>
<p><b><i>Threat of substitutes</i></b> +</p> <p>The retail industry competes with a number of other stores, Carrefour is operating many different types of stores to fulfil the need of their customers. This makes the threat of substitutes low, because it is not easy to operate in all types of stores as Carrefour does it.</p>	



Porters five forces determine a medium attractiveness of the retail industry, this leads to some threats, like entrants and competitors; and opportunities, like supplier and buyer power and the low chances of substitutes; that need to be carefully studied.

#### **Retail Industry sales and growth rates for the past two years (emarketer, 2014)**

Year	Sales (€) in trn	Growth Rate % €
2014	22.492	6,1 %
2013	21.189	6,4%

#### **4.1.2 Target Market Profile**

Carrefour targets every segment in the market and has no connection between demographic or psychographic variables and its sales. The frequency of sales varies according to behavioral characteristics as purchase occasion, loyalty status and the attitude towards the product. Clearly the customer buying it on a regular basis is the main end user. Carrefour is a chain that tries to target all end users: families with its hypermarkets, with the supermarket single households, with the “Carrefour drive” very busy people, who have little time, but want to buy a lot and have a lot of choice and with “Carrefour city” they try to target busy employees who just need a few things and don’t mind little choice. This concept is done in the domestic market and is copied to the foreign markets.

#### **4.1.3 Product/ Segment Profile**

In general the selling price at Carrefour is rather low, but Carrefour also has a premium segment which has higher prices. Carrefour differentiates itself from competitors by its innovative store format and the remarkable logo. The technology level of the product is low, since it is only to build, rent or buy a building, buy fridges, shelves and put in the products. It is necessary to translate the product description and the manual for electronic goods of Carrefour’s own brand into the national language and offer customer support in the national language. In case of electronic goods the technology level of the product might be high and the required adaptation as well. Carrefour’s current product life cycle

(PLC) is growth, with international sales and increasing establishment in foreign markets. The industry's PLC is maturity, with increasing sales, with maturity in sales and increasing competition intensity.

Global Readiness Criteria	Rank <sup>1</sup>
Is the foreign market similar to the French market?	3
Is the End User of the product in the foreign market the same as in the French market?	3
Is the product successful in France?	5
Is the product unique?	3
Does the product perform the same function in the foreign market as it does in France?	5
Are the product use conditions the same in the foreign market as they are in the French market?	5
Does the product need modifications to meet the needs of the customers in the foreign market?	4
What is the stage of the product's life cycle in the French market?	3
What is the stage of the product's life cycle in the international market?	3
Does the product require after-sales service?	2
Is Carrefour in a position to provide after sales-service to its customers in the foreign market?	5
Would export orders hurt domestic sales?	3
Does Carrefour have the financial resources necessary for export?	5
Does Carrefour have in-house personnel with export related knowledge/experience?	5
Is international/global participation part of the Mission Statement of Carrefour?	5
Is international expansion a part of the strategic business plan of Carrefour?	5
Would Carrefour be willing to investigate export market opportunities?	5
Would Carrefour be willing to attend and/or participate in Trade Shows abroad?	5
Is Carrefour willing to translate company literature into one or more foreign languages?	5
Are Carrefour's top competitors involved internationally?	1
Is the retail industry highly regulated?	2
Is Carrefour certified- ISO 9000 or other certification?	3

Score	Suggested Export Method	Score	International Activity
0 – 19	Not Ready to export	50 – 69	Direct Exporting
20 – 29	E-Commerce	70 – 89	Foreign Marketing Presence
30 – 39	Indirect Export	90 – 100	Foreign Manufacturing
40 – 40	Contractual Arrangements		

Based upon Carrefour's score of 85 out of 110 (77%), the GMMSO software suggested to proceed with the following entry modes: Foreign Marketing Presence: Foreign Sales Branch, Foreign Sales/Marketing Subsidiary or Company Owned Retail Store(s).

#### 4.1.4 Strengths, Weakness, Opportunities, Threats (SWOT) Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>No. 2 worldwide, No. 1 in Europe (experience)</li> <li>Vast Format of operations (adoptability)</li> <li>High international brand reputation and recognition</li> <li>Established own-label brand</li> </ul>	<ul style="list-style-type: none"> <li>Main decisions taken in France</li> <li>Labor relations</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Withdrawals of competitors could be acquisition potential</li> <li>EU enlargement (expansion possibilities)</li> </ul>	<ul style="list-style-type: none"> <li>Competitors: Wal-Mart</li> </ul>

<sup>1</sup> The Rank is from 1 to 5; 1 being the most favorable, 5 being the worst favorable.

<ul style="list-style-type: none"> <li>• Entry into new markets, especially South America</li> </ul>	<ul style="list-style-type: none"> <li>• Customers want to be different → not buy in the same store</li> <li>• Legislation limits foreign owned stores</li> </ul>
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To conclude, as the Carrefour Group is the number 1 retailer in Europe and number 2 worldwide, Carrefour has a very high potential to further internationalize. Its strengths are mainly international experience, sufficient capital and its expertise in growing. Carrefour targets the world population as customers because they have a mass target orientation. After analyzing the international experience the Carrefour Group has, the software calculated its global readiness with 85 %, and recommended to continue its internationalization with *Foreign Marketing Presence*: Foreign Sales Branch, Foreign Sales/Marketing Subsidiary and Company Owned Retail Stores. Our suggestions to Carrefour's Group strong position in the market is, giving the group a secure basis, we recommend to continue internationalizing. It should improve its cost efficiency, because although sales are high, profits don't match with that success, which is common in this industry.

## 4.2 Phase 2: Global Market Search - Selecting Country Markets

### 4.2.1 Country Selection<sup>2</sup> and Reasons

Reason	EU high € <sup>3</sup>	EU low €	South America (SA)
Inst. Prox.	AUT <sup>4</sup> (70), IRL (58), SWE (69),	EST (05), LVA (45), LTU (42)	
Geo. Prox.			ECU (57), GUY(34), VEN (62)

This table shows the selected countries, the reasons for selecting them and the score outcome of the GMMSO. For the Carrefour Group it is vital to strengthen its market position in Europe to ensure to stay the number 1 in Europe and continue expanding to South America (Garcia, 2015). The European Union (EU) is as institution highly relevant

<sup>2</sup> Abbreviation of countries is according to the UN A3 code, a list can be found under: <http://www.worldatlas.com/aatlas/ctycodes.htm>

<sup>3</sup> High EU € countries have a higher GDP per capita than € 40,000, low EU € countries below € 40,000.

<sup>4</sup> Austria has been included despite Carrefour failed already in Austria because Carrefour entered 1976, which is a long time ago and Carrefour has gained a lot of experience since then. In 1977 Carrefour failed also in Germany, but is now well established.

for Carrefour, because it can benefit from EU enlargements and the institutional framework as Carrefour's homecountry France is part of the EU. The Company can take advantage of the EU enlargement in 2004 by considering Estonia, Latvia and Lithuania. Geographical proximity (Frankel, 1997) is a crucial dimension for Carrefour, because in the retail business many products have to be transported and this saves costs and time, besides that the company has already established contacts. Carrefour is currently operating already in 10 SA countries which means the company has already established contacts and some knowledge. The higher the score, the more favorable is the country for Carrefour to enter. In conclusion, the most favorable country is Austria with a score of 70, followed by Sweden with 69. These two countries will be analyzed in depth in Phase 3 and 4.

#### *Not selected countries and reasons*

Reason	EU high €	EU low €	South America
<b>Carrefour present</b>	BEL, DNK, FIN, FRA, LUX, NLD	BGR, CYP, GRC, HUN, ITA, MLT, POL, ROM, SVK, SVN, ESP	ARG, BOL, BRA, COL, GUF, FLK, PRY, PER, SUR, URY
<b>Carrefour failed</b>	AUT, GBR	CZE, PRT	CHL
<b>Strong Competition</b>	DEU	HRV (Konzum)	

#### **4.2.2 Criteria Selection**

In order to assess the nine selected countries in detail, we evaluated the demographic, the economic, infrastructure and the political environment criteria by researching and ranking the following indicators and ranking the criteria:

Major Criteria	Sub Criteria
Demographic Criteria	Household Income, Income Distribution (Gini Index score), Population, Population growth, Living Standards (HDI), Unemployment
Economic Criteria	Consumer expenditures, Current Account Balance, Disposable Income, FDI Total Inflows, GDP (PPP), GDP per capita (PPP), GDP real growth rate, Inflation (Consumer Price Index), No. of major retailers
Infrastructure	Internet users, Air transport, registered carrier departures
Political/Legal Environment	CPI country rank, Ease of doing business country rank, Index of Economic Freedom country rank, No. of free-trade zones, Political Stability Index, Tariffs/duties in the selected industry

### 4.2.3 Country Evaluation

Count	Population	R 10 <sup>5</sup>	Pop. growth	R 5	Unempl.	R 3	Househol. Inc	R 5
EST	1,324,612	8	0	7	8.8	5	27,131.60	6
LVA	2,013,385	7	-1.0	8	11.1	7	27,139.30	5
LTU	2,956,121	6	-1.1	9	11.8	8	24,139.70	7
IRL	4,595,281	5	0.2	6	13.1	9	82,268.20	3
AUT	8,473,786	4	0.5	4	4.9	2	97,338.20	1
SWE	9,592,552	3	0.8	3	8.1	4	91,277.50	2
ECU	15,737,878	2	1.6	1	4.2	1	15,285.70	8
GUY	799,613	9	0.5	4	11.1	7	3,583.20	9
VEN	30,405,207	1	1.5	2	7.5	3	40,029.60	4

(Worldbank, 2015l), Population growth (Worldbank, 2015m), Unemployment (Worldbank, 2015n), Household Income (Euromonitor, 2014a)

Venezuela, as a highly populated country takes the lead, and Guyana is at the last position, but regarding population growth Ecuador is at the first position and Lithuania at the last. As for unemployment, Ecuador has the lowest and Ireland the highest number. The household income is the lowest in Guyana and the highest in Austria.

Count	HDI	R 3	Gini	R 3	GDP (PPP)	R 3	GDP gr.	R 5
EST	0.84	4	32.70	5	33727073051	8	1.60	5
LVA	0.81	6	36.00	6	45422428496	7	4.10	3
LTU	0.83	5	32.60	4	75283669316	6	3.30	4
IRL	0.90	1	32.10	3	212024503517	4	0.20	8
AUT	0.88	3	29.20	2	385496452055	3	0.20	8
SWE	0.90	1	25.00	1	433085739256	2	1.50	6
ECU	0.71	8	49.30	8	171385320303	5	4.60	2
GUY	0.64	9	67.80	9	5234212509	9	5.20	1
VEN	0.76	7	44.80	7	553325207437	1	1.30	7

HDI Index, Gini Index (United Nations Development Programme, 2015), GDP (PPP) (Worldbank, 2015g), GDP real growth rate (Worldbank, 2015e)

Despite Guyana scores the least favorable in the HDI Index, Gini Index and the GDP (PPP) it is the most favorable in terms of GDP real growth rate.

Count	GDP pc	R 3	Disp I	R 5	Infl	R 2	FDI Inflows	R 5
EST	18,783.10	4	914.97	4	2.80	7	964,588,953	4
LVA	15,375.40	6	713.11	5	0	1	880,800,000	5
LTU	15,537.90	5	701.28	6	1.10	3	712,435,949	7
IRL	50,503.40	3	2,991.21	2	0.50	2	49,960,134,752	1
AUT	50,546.70	2	2,457.33	3	2.00	5	13,843,770,472	2
SWE	60,430.20	1	3,181.11	1	0	1	-5119205196	9
ECU	6,002.90	8	359.29	8	2.70	6	725,051,206	6
GUY	3,739.50	9	209.33	9	1.80	4	200,523,800	8

<sup>5</sup> R refers to the ranking of the country and the number beside R indicates the weight of the indicator. In the Ranking: 1 is most favorable, 9 least favorable

VEN	14,414.80	7	564.76	7	40.60	8	7,040,000,000	3
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GDP per capita (PPP) (Worldbank, 2015f), Disposable Income (Euromonitor, 2014a), Inflation (Worldbank, 2015i), FDI Inflows (Worldbank, 2015d)

Sweden has the highest GDP per capita (PPP), the highest disposable income, no inflation, but very high FDI outflows this might be due to the recent data of 2015.

Count	Curr. Acc. Bal.	R 3	Con. Exp.	R6	Int. U	R 1	Transport	R 5
EST	-300,316,819	7	-1.70	7	80.00	3	18,757	7
LVA	-249,600,000	6	0.60	5	75.20	5	43,990	6
LTU	675,264,340	5	-4.20	9	68.50	6	12,461	8
IRL	14,437,746,279	2	-1.30	6	78.20	4	669,379	1
AUT	11,246,070,275	3	1.90	3	80.60	2	165,908	2
SWE	34,540,783,603	1	2.80	1	94.80	1	158,879	3
ECU	-1,290,492,131	9	2.70	2	40.40	8	72,017	5
GUY	-425,606,950	8	1.10	4	33.00	9	7,425	9
VEN	11,016,000,000	4	-3.40	8	54.90	7	78,579	4

Curr. Account Balance (CAB) (Worldbank, 2015b), Consumer Expenditure (CE) (NationMaster, 2015), Internet Users (IU) (Worldbank, 2015j), Transport (Worldbank, 2015a)

Most favorable is Sweden in the Current Account Balance, the Consumer Expenditure and Internet Users. Regarding the Transportation Ireland takes the lead.

Count	Political SI	R 5	Corr.PI	R 2	EeaseDB	R 5	IEconomF	R 2
EST	20.38	8	30	2	17	7	75.30	2
LVA	65.40	5	55	4	23	5	66.50	6
LTU	76.30	3	58	5	24	4	72.10	4
IRL	73.93	4	74	7	13	8	75.70	1
AUT	96.68	1	72	6	21	6	71.80	5
SWE	90.52	2	87	8	11	9	72.90	3
ECU	39.81	6	33	3	115	3	46.90	8
GUY	31.75	7	30	2	123	2	53.80	7
VEN	16.11	9	19	1	182	1	36.10	9

Political Stability Index (PSI) (Worldbank, 2015k), Corruption Perception Index (CPI) (Transparency, 2015), Ease of doing business (EDB) (Worldbank, 2015c), Index of Economic Freedom (IEF) (Global Finance, 2015)

Venezuela is very controversial in this scoring, being most favorable in terms of the Corruption Perception Index, and the Ease of Doing Business, but the least favorable of Political Stability and the Economic Freedom.

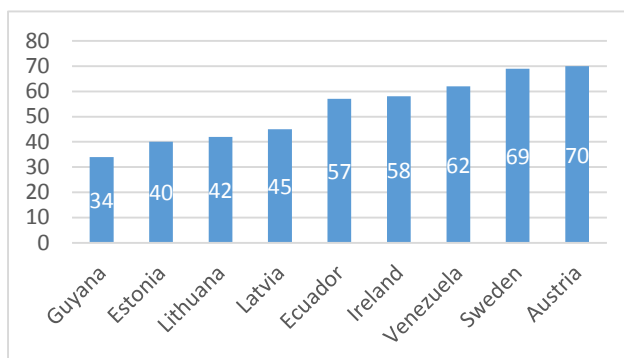
Count	Tariffs	R 5	No. Free-trade zones	R 2	Competition intensity	R 5
EST	0	1	2	2	4	1
LVA	0	1	2	2	2	3
LTU	0	1	2	2	1	5
IRL	0	1	1	5	1	5
AUT	0	1	1	5	2	3
SWE	0	1	1	5	3	2

ECU	25	7	1	5	1	5
GUY	30	8	0	9	1	5
VEN	34	9	3	1	1	5

Tariffs/duties, No. of free-trade zones (FTZ) (Frankel, 1997), Competition intensity (CI)

Venezuela has the most free-trade zones (MERCOSUR, Regional Customs Preference and Economic Complementation Agreement), but the highest tariffs and France is not part of the free-trade zones, Venezuela is less favorable.

The conclusion of Phase 2 is that Austria with 70 points and Sweden with 69 points have the highest potential for Carrefour to enter. This is mainly due to the good economic and



political environment in these two countries. However, population growth is low and Sweden has not the Euro as currency, which decreases its potential. These EU high countries are closely followed by the two SA countries Venezuela and Ecuador. Our recommendation is firstly to consider to Austria and Sweden as countries to enter, but secondly to keep watching the economic and political situation in Venezuela and Ecuador and take account of these two countries at a later point in time.

### 4.3 Phase 3: In-Depth Market Analysis Report

In this phase we will analyze the Contacts, Market & Company Sales Potential, Competition, Country Entry Conditions and Financial & Market Conditions. The following table shows potential contacts for Carrefour when entering Sweden (first table) and/or Austria (second table) to establish business.

Name	Organization	Address	Phone	Email	Strength
Svenska ICC Service AB	International Chamber of Commerce	Birger Jarlsgatan 25, Stockholm	46 8 440 89 20	info@icc.se	5
	Swedish Trade Federation	Regeringsgatan 60, Stockholm	46 8 508 280 00	Invest@stockholm.se	3
	Start-up line	Leangbukta 40, Stockholm	46 20-35 10 10	Startlinjen@tillvaxterket.se	1

	Stockholm Business Region	Drottninggatan 33, Stockholm	46 8 508 280 00	Invest@stockholm.se	1
	Svenska Handelsbanken AB (publ)	Kungsträdgårdsatan 2, Stockholm	46 87011000	http://www.handelsbanken.com/	2

Name	Organization	Address	Phone	Email	Strength
	Chamber of Commerce	Stubenring 8-10, Vienna	43 1 514 50- 0	postbox@wkw.at	5
	Unternehmensservice Portal	Johannesgasse 5, Vienna	43 0810 202 202	<a href="https://www.usp.gv.at/">https://www.usp.gv.at/</a>	3
	ABA-Invest in Austria	Opernring 3, Vienna	43 1588580	<a href="mailto:office@aba.gv.at">office@aba.gv.at</a>	2
	Bank Austria	Schottengasse 6-8, Vienna	0505050	info@unicreditgroup.at	4
Ingrid Krenn-Ditz	RZB Österreich AG	Am Stadtpark 9, Vienna	43 1717071298	Ingrid-krenn-ditz@rbinternational.com	5

#### 4.3.1 Market and Company Sales Potential

	Sweden	Austria
a = No. potential (eligible/qualified) consumers:	7,500,000	7,500,000
b = Frequency of purchase on an annual basis:	52	52
c = weekly shopping expenditure (€)	55	45
Total market potential (TMP = a x b x c)	21,450,000,000 Very favorable	17,550,000,000 Favorable
Desired Market Share (%)	5	4
Company Sales Potential (CSP)	1,072,500,000 Very favorable	702,000,000.00 Favorable

#### 4.3.2 Competitive Analysis

Sweden	Competitor 1	Competitor 2
Competitor Name (Euromonitor 2015 b):	ICA Sverige (ICA 2013)	Axfood (Axfood 2014)
Product/Service Name:	Grocery retailer	Grocery retailer
Headquarters	Sweden	Sweden
Total Sales country	7,603.33 billion EUR	3.80 billion EUR
Total Sales worldwide	10.71 billion EUR	4.10 billion EUR
Number of Employees:	21,000	8,481
Years in Business	2 (until 2015)	16 (until 2015)
E-Commerce	Developed online shop with an ICA Handla app for mobile phone shopping, mobile coupons, ICA Bank offering mobile banking	Started on 22.04.2015 a pilot project with 100 employees as e-commerce customers to test the market
Pricing Strategy:	Creating favorable prices by offering different retail store formats with different prices under different names	Creating favorable prices by offering different retail store formats with different prices under different names
Product Attributes and Benefits:	Strong focus on the customer and online availability	Strong focus on the customer and cost efficiency
Promotion Strategy	Focus mainly on online promotion	Focuses on various types of promotion



Quality	Different types of quality depending on the price and name of the retail store	Different types of quality depending on the price and name of the retail store
Service	Guarantee, warr., guidance, banking	Guarantee, warranty, guidance
Target Market Profile	48 % of market share	17 % of market share

Austria	Competitor 1	Competitor 2
Competitor Name (Euromonitor 2015 a):	Rewe International (Rewe, 2013)	Spar Österreichische WarenhandelsGmbH (Spar, 2014)
Product/Service Name:	Grocery retailer	Grocery retailer
Headquarters	Germany	Austria
Total Sales country	5.6 billion EUR	5,91 billion EUR
Total Sales worldwide	49.68 billion EUR	12,94 billion EUR
Employees worldwide	70,000	73,335
Years in Business	88 (until 2015)	61 (until 2015)
E-Commerce	Delivery service in densely populated areas	Delivery service in densely populated areas
Pricing Strategy	Creating favorable prices by offering different retail store formats with different prices under different names	Creating reasonable prices by offering the same retail store formats with the same prices under different names
Product Attributes and Benefits:	Wide range of different products and quality	Wide range of different products and quality
Promotion Strategy	Wide range of design of products, different promotion strategies, various retail store formats	Similar promotion since the first store opening (high recognition)
Quality	Different types of quality depending on the price and name of the retail store	Different types of quality depending on the price and name of the retail store
Service	Guarantee, warranty, guidance	Guarantee, warr., guidance
Target Market Profile	All inhabitants and tourists, depending on the different store formats	All inhabitants and tourists, depending on the different store formats
Degree and Level of Market Competition	35.3 % of market share, extensive level of market competition	29.9 % of market share, extensive level of market competition

#### 4.3.3 Country Entry Conditions

Import regulation	SWE Rank	AUT Rank
Administrative Barriers	5	5
Import Licensing Requirements	5	5
Quotas	4	5
Tariffs	3	3

Foreign Direct Investment (FDI) regulations	SWE	AUT
Foreign comp. allowed 100 % Equity Ownership of domes. firms (Worldbank, 2013)	5	5
Are foreign companies allowed to establish their own retail establishments?	5	5
Can foreign companies borrow locally?	5	5
Does the government restrict the amount or type of investment?	5	5
Does the government restrict the Repatriation of Earnings?	3	3

Sweden and Austria permit in the retail industry 100 % foreign legal ownership, which highly favors Carrefour's potential investment in these countries.

#### 4.3.4 Financial and Market Entry Conditions

	SWE Rank	AUT Rank
Corporate Tax rates are favorable	5	4
Personal Tax rates are favorable	4	5

The maximal corporate tax rate in Sweden is 22 %, the maximal individual income tax is 57% (Heritage, 2015) and for Austria respectively 25 % and 50 % (BMF, 2009).

The country's currency is convertible	4	5
The country's current account is in good standing (Balance of Payments)	5	3
The currency of the country has been stable	4	4

Sweden is using the Swedish Krona, a currency which is not very volatile. Austria is using the Euro, as Carrefour does in his home country in France. An anonymous interviewee (2015) mentioned that the currency plays no crucial role for Carrefour because the cashflows can be swapped against each other.

Child labor issues	5	5
Labor wage rates	2	2
Management-labor relations	4	5
Strength of labor unions	3	2

In Sweden the labor costs are 63 USD (BLS, 2012), which is much higher than in Austria with 42 USD (BLS, 2012). Carrefour might be able to outbalance this by setting the prices higher.

Banking system	5	4
Energy	5	5
Internet connections	5	5
Telecommunications system	5	5
Transportation systems	5	5

Sweden and Austria have both a very suitable and favorable infrastructure, ready for Carrefour's business.

Distribution channels are regulated by the government	5	5
Existing channels provide adequate national market coverage	2	3
The company will be able to distribute its product/service using existing channels	3	3

As competition is high, competitors might try to prevent Carrefour using the existing channels. Therefore, a local partner would be helpful.

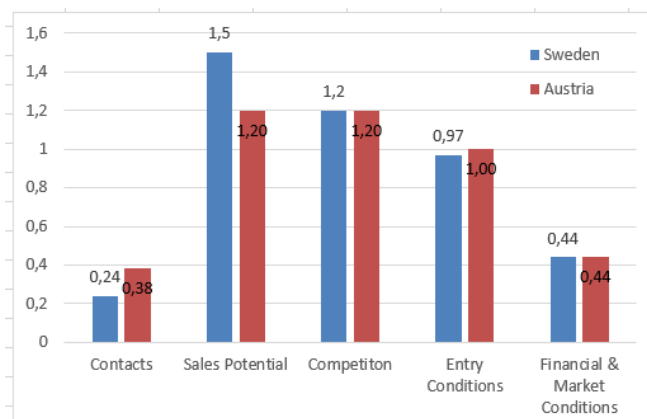
	SWE	AUT
It is easy to establish presence or a business in the country	4	5
The country has anti-trust legislation in place	5	5
The country is a member of the WTO	5	5
The country protects intellectual property	5	5
The level of corruption in the country is low	5	5

The legal environment is very favorable for foreign countries when starting business, but the local governments can start trying to protect smaller business by hindering Carrefour to capture a high market share, therefore a local partner would again be an advantage.

#### 4.3.5 The Best Target Market Country

Variables	Weight	Average Rank		Weighted Total	
		SWE	AUT	SWE	AUT
Contacts (average)	10	2.40	3.80	0.24	0.38
Market & Company Sales Potential	30	5.00	4.00	1.50	1.20
Competiton	30	4.00	4.00	1.20	1.20
Country Entry Condition	20	4.86	5.00	0.97	1.00
Financial & Market Conditions	10	4.44	4.44	0.44	0.44
	Total Weight	Average Rank Sum		Weighted Total	
	100.00	20.70	21.24	4.35	4.22

In this module several factors concerning the retail market conditions of Sweden and Austria were analyzed. The results are not very distinctive as both economies are in very similar situations. As the



“Sales Potential” and “Competiton” were according to Mr. Garcia crucial indicators for the IMS for Carrefour, special importance has been given to them by weighting them with 30 %, followed by 20 % for the entry conditions and only 10 % for the “Contacts” and “Financial & Market Conditions”. The result of this in-depth market analysis in Phase 3

is, that Sweden has in total with 4.35 more market potential than Austria with 4.22. This is mainly due to the higher “Market & Company Sales Potential” in Sweden. Concerning the “Country Entry Conditions” and the “Contacts” Austria has more sales potential. The competition and the financial & market conditions are the same in both countries. In total Sweden has the highest market potential to enter for Carrefour. We recommend to still watch the Austrian market carefully, because it has a high market potential for Carrefour, but to concentrate first on Sweden. The following phase deals with the entry methods for Carrefour in Sweden.

#### 4.4. Phase 4: Entry Strategy

Column Key:			
A = Goals/Objectives	D= Experience	G = Market Size	J = Feedback
B = Control	E = Competition	H = Risk	
C = Resources	F = Regulations	I = Flexibility	

Entry Mode <sup>6</sup>	A	B	C	D	E	F	G	H	I	J	Total
Corporate Owned Retail Stores	5	5	1	4	3	3	5	2	2	5	35
Indirect Export	2	3	4	5	2	4	3	4	3	1	31
Direct Export	2	5	5	5	3	5	3	4	4	3	39
Foreign Based Sales Branch	5	5	3	5	5	3	5	3	3	5	42
Foreign Based Marketing Subsidiary	5	5	3	5	5	3	5	3	3	5	42
Wholly Owned Manufacturing Subsidiary	5	5	3	5	5	3	5	3	4	5	43
Joint Venture (Manufacturing)	3	3	3	5	5	5	4	2	2	4	36
Joint Venture (Marketing)	2	3	2	4	4	4	3	1	1	4	28
Franchising	1	3	3	1	1	4	1	3	3	2	22
Licensing	1	3	3	1	1	4	1	3	3	2	22
Management Contract	2	3	3	5	1	5	2	2	2	2	27
E-commerce	5	5	5	5	3	5	3	5	5	2	43

As entry mode the Joint Venture (Marketing) and the E-commerce were chosen because these two methods highly reflect the goals of Carrefour and are feasible. Carrefour entered already into several other countries with this method (in 2015: Ivory Coast, Algeria,...) and had success with these methods. Carrefour operates in the beginning by even using the name and logo of the joint venture, after some successful years Carrefour starts

<sup>6</sup> The ranking is on a scale of 1-5. A score of 1 = Low. A score of 3 = Medium. A score of 5 = High.

usually its own subsidiary. Our suggestion for the Joint Venture is to contact Bergendahl Group, a retail group which operates since 1922 exclusively in Sweden and tries to become the number one in Sweden. Bergendahl is struggling to gain market share, Carrefour could help them to strengthen this position and learn at the same time how to operate in Sweden. After approximately eight years Carrefour might be able to take the decision to leave the Swedish market or to do a green field investment with opening up a wholly owned subsidiary. Carrefour has learned during this time more about the customer needs and will probably know which store format is suitable in which city and how to maximize efficient transports and logistics.

The conclusion of Phase 4 is that Carrefour should enter with a Joint Venture (Marketing) in Sweden, possibly to use the name of the partner first. This has a good trade-off between the learning and the risk involved in this process. After some years of the Joint Venture, Carrefour could open up its own sales branch, operating under its own name. However, Carrefour might have difficulties to find a partner because in a later stage they might be competitors.

## **5.) Conclusion and Recommendations**

The theory described in the theoretical background, does not conflict with the information found in the interviews. Papadopoulos (1987) recognized the “costs of low potential” as a key reason not to internationalize for a firm, which goes along with what Mr Garcia (2015) said in the interview, that according to his opinion the “potential market growth” is the most important criteria to select a market. This shows that the criteria didn’t change over the last 28 years. However, according to an anonymous interview (2015), currency issues don’t play an important role for Carrefour, because they can swap cur-

rency inflows and outflows, which usually solves this issue. This means that this institutional proximity advantage of some countries in the EU, is no crucial advantage for Carrefour. Sweden is the best country to expand internationally from the analyzed countries. However, it is necessary to decide when to enter in Sweden and find the right partners for the Joint Venture (Marketing) and E-commerce. Carrefour has gained already a lot of experience with Joint Ventures in other countries and can apply this knowledge now to set out the contract details in an appropriate way, if they find the right partner. This confirms the habitualization of entry modes (Swoboda, 2014), where companies choose mainly the same entry modes repeatedly. In the case, Carrefour operates under the name and logo of the partner, Carrefour cannot increase its brand awareness and reputation during the first years. But once Carrefour is established and strong enough to operate alone, this marketing objective will be fulfilled. To watch the competitors carefully and do analysis is necessary in all the countries as well. In the case of Sweden, Axfood (Carrefour's potential competitor No. 2), published a detailed Industry Report, leading to the main conclusion that the focus on efficiency and customers is crucial in the retail industry (Axfood, 2014). Possibly Carrefour should take this report into consideration. Furthermore we recommend to closely watch Austria, Venezuela and Ecuador as entry countries because they had also a high score and good potential.

## **6.) Limitations and implications**

Finally, we discuss some aspects of the study which limited the results and give some directions for future research: Despite the effort in arranging interviews with many employees, it was only possible to conduct three interviews. The lack of interviews turned into a less valuable qualitative result.

Besides that, the fact that the interviews were carried out from distance and couldn't be done face to face could diminish the quality of the project slightly. Our findings also indicate that Venezuela and Ecuador could be potential entry countries for Carrefour as well, a more in depth analysis like in Phase 3 and Phase 4, would assess this issue.

In addition to that, it would be interesting to do the same project with Groupe Auchan and Tesco LTC, so that we could see if the results are similar or where which company should focus on.

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